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SUBJECT: VENEZUELA: Central Bank Underestimates Economic Contraction

REF: CARACAS 1497; CARACAS 1469; CARACAS 207

11. (U) SUMMARY AND COMMENT: According to Central Bank President Nelson Merentes' end of year projection, the Venezuelan economy contracted 2.9% in 2009. The Central Bank (BCV) data indicated non oil exports fell to 2004 levels and petroleum income is also sharply down. Trying to divert attention from the negative economic situation, GBRV spokesmen stressed how socialist policies have stabilized the economy while planned adjustments to the methodology of calculating GDP will provide a more complete assessment of the nation's advancement towards socialism in 2010. END SUMMARY AND COMMENT.

BCV Estimates

12. (U) According to the BCV projection, the Venezuelan economy contracted 2.9% in 2009, implying a 4.6% contraction in the fourth quarter, its third consecutive quarterly contraction. [NOTE: Official fourth quarter 2009 statistics will not be published for several months. END NOTE.] At the end of the third quarter, the BCV projected an annual GDP contraction of 2.2% (reftel B). On national television the evening of December 30, President Hugo Chavez explained that "2009 was ending well, with the soul smiling," citing earlier forecasts that the world economic crisis and petroleum price crash would have impacted the local economy more severely.

13. (U) BCV estimates indicated that Venezuelan exports declined, with non oil exports falling to \$3.3 billion. Non oil export revenue is currently at 1997 levels and represents a 44% reduction from 2008. The BCV estimated that oil production (barrels produced) fell by 6.1%. In early December, OPEC estimated Venezuelan crude oil production at 2.3 million barrels a day (mbd), roughly the same level Venezuela achieved in 1990. (NOTE: GBRV claims oil production is around 3 mbd. The BCV estimate does not attempt to reconcile these disparate figures. END NOTE.) Driven by a 32.7% reduction in petroleum prices, revenue from petroleum exports plummeted 35.3%, while export revenue in general fell 35.9%. Imports shrank from \$49.5 billion in 2008 to \$38.5 billion in 2009, a 22.2% difference. The only positive advances in the economy included the construction sector (3.1%), communications (10.1%), and electricity generation and water utilities (4.6%). Unemployment closed the year at 8%. According to Merentes' year-end report, nationalizations contributed to growth in the public sector and displaced the private sector as the main driver of the economy. Public sector participation in GDP rose 30.3% with nationalizations of the cement industry, various banks and Sidor

(Venezuela's largest steelmaker). Government spending grew 2.1% even though, demand fell 1.8%, consumption dropped 1.8% and investment sank 7.6%.

GBRV Response

¶4. (U) The BCV announced (again) that it will change the way it measures economic behavior in 2010 to present a more complete assessment of the country's transition to a socialist economy, echoing Chavez's remarks in November (reftels A and C). These changes will allegedly include indicators to measure well-being as well as economic and social progress. Press reports on December 31 claim that Minister of Planning Jorge Giordani announced that the GBRV would reinforce socialist policies to stabilize the economy in ¶2010. Measures under consideration include public investment in agriculture, tourism and construction; refinancing internal debt; stabilizing the foreign exchange market; and increased capital expenditures. Giordani maintained that subsidies and price controls would resolve inflationary problems (2009 inflation is estimated by independent economists at around 28%).
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